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Charles Schwab & Co., Inc. Schwab Intelligent Advisory™ Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Charles Schwab & Co., Inc. ("Schwab"). If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Schwab's description of itself in this brochure as a registered investment advisor does not imply a certain level of skill or training on the part of Schwab or its representatives.

Additional information about Schwab is also available on the SEC's website at www.adviserinfo.sec.gov.

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Advisory Business

Charles Schwab & Co., Inc. ("Schwab" or "we") is a wholly owned subsidiary of The Charles Schwab Corporation ("CSCorp"), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). Schwab has been registered as an investment advisor since July 24, 1987.

Schwab sponsors Schwab Intelligent Advisory™ ("SIA" or the "SIA Program"), a hybrid advisory service that combines financial planning and periodic guidance from Schwab planning consultants ("Planning Consultants") with discretionary portfolio management through Schwab Intelligent Portfolios™ ("SIP" or the "SIP Program"), a discretionary investment advisory program sponsored by Schwab's affiliate, Schwab Wealth Investment Advisory, Inc. ("SWIA"), and provided as a component of SIA pursuant to a license agreement between Schwab and SWIA.

Schwab Intelligent Advisory™

Clients of the SIA Program ("Clients" or "you") receive a tailored financial plan by first accessing the Schwab Intelligent Advisory website and engaging with the SIA Program's self-guided digital planning tool ("Planning Tool"). Clients answer a series of questions in the Planning Tool and enter detailed information about their current financial situation, including assets and liabilities, overall goals and risk tolerance.

The output of the Planning Tool will serve as the basis for an initial scheduled discussion between the client and Planning Consultants. The initial planning conversation may include core wealth management topics like retirement planning, savings, and budget management and culminates in a recommendation about the appropriate SIP strategy or strategies for accounts that the Client wishes to enroll in the SIA Program.

Once enrolled, Clients can stay connected to their plan and accounts online via a customized dashboard and online access to the Planning Tool. Planning Consultants will conduct periodic client consultations, generally once a year, to review the online financial plan and subjects covered in prior consultations as well as any new topics that may have arisen. Client consultations will also be used to review any changes to the client's accounts or financial situation that may warrant updating the online financial plan or selected SIP strategies.

Although Clients will receive financial planning advice on a broad range of subjects and accounts through the SIA Program, only those accounts actually enrolled in SIA (each a "SIA Account" or "Account") will receive discretionary portfolio management through the SIP Program.

Clients must enroll a combined minimum of \$25,000 in the SIA Program, which can be met through one or more SIA Accounts. Each enrolled Account must meet an initial minimum requirement of \$5,000. Not all clients will be appropriate for the SIA Program. It is designed for investors who are comfortable with online and mobile access and who are conscious of fees and costs, but also want to be able to receive periodic guidance. It is generally not for clients with highly complex needs or a preference for frequent, in-person interactions.

Schwab Intelligent Portfolios™

SIP provides discretionary management of a diversified portfolio of exchange-traded funds ("ETFs") and an FDIC-insured cash allocation (the "Cash Allocation"). The portfolio of ETFs includes up to 20 asset classes across stocks, fixed income, real estate, and commodities. The SIP Program is designed to monitor a client's account and automatically rebalance as needed to keep a client's portfolio consistent with their selected risk profile.

SWIA provides administration and related services for the SIP Program. Charles Schwab Investment Advisory, Inc. ("CSIA"), an affiliate of Schwab and SWIA, provides portfolio management services for SIP Program accounts on a discretionary basis consistent with clients' chosen investment strategy. Schwab acts as the qualified custodian for SIP Program accounts, providing trade execution, research and related services. Schwab has no discretionary authority or control over any SIA Account, and will effect only those transactions that it understands to have been instructed by CSIA.

Clients give investment discretion to CSIA to manage their account and make trades in their account. As with similar automated services, clients will not be allowed to make trades in their account. Clients may request that certain ETFs be excluded from their account, but CSIA is not required to accept account restrictions that it deems unreasonable. A request to exclude ETFs from a client's account may result in delays in the management of the account. The client will be notified if the account cannot be managed with the requested investment restrictions. Clients also may request that CSIA use a tax-loss harvesting strategy so that tax losses are generated to offset potential capital gains in their account, subject to meeting minimum balance requirements (currently \$50,000 in an individual SIA Account, which is subject to change).

Accounts enrolled in the SIA Program are not margin accounts, meaning clients cannot borrow money to buy securities in the account or use the securities in the account as collateral for a margin loan.

Electronic Delivery

During the SIA Program online application process, clients agree that records and disclosures will be delivered electronically and that agreements will be signed electronically. This includes the disclosure brochures, supplements, and other documents relating to clients' accounts. Each Client has an obligation to maintain an accurate and up-to-date email address and to ensure that he/she has the ability to read, download, print, and retain electronic documents. If a client is unable or unwilling to accept electronic delivery, the client's enrollment in the SIA Program may be terminated. If a client's account is terminated, the client will be required to transfer the account assets to another account at Schwab or at another custodian; otherwise, the client's account assets may be liquidated and proceeds sent to the client.

Methods of Analysis, Investment Strategies, and Risk of Loss

Using asset allocations and ETF selection parameters determined by SWIA, CSIA has created a number of discretionary investment strategies for SIA accounts. These consist of diversified portfolios of ETFs and the Schwab Intelligent Portfolios Sweep Program ("Sweep Program"), which automatically deposits, or "sweeps," free credit balances to deposit accounts at Charles Schwab Bank ("Schwab Bank"), an affiliate of Schwab, SWIA and CSIA. Each investment strategy is designed to be consistent with a certain combination of investment objectives and risk tolerance. Certain investment strategies are intended for taxable accounts and others for tax-deferred accounts (such as individual retirement accounts). Certain investment strategies are intended for clients who are looking for some level of income generation.

SIA Accounts include cash as an investment to help provide a stable foundation within an overall asset allocation that includes other asset classes such as equities, bonds and commodities. The Cash Allocation is designed to provide greater stability, liquidity, diversification and potential inflation protection. The Cash Allocation is determined based on an investor's risk profile, with the most risk-averse or short-term portfolios holding the highest levels of cash and the least risk-averse or longer-term ones holding the lowest levels of cash.

Additional investment strategies or modifications to the parameters of existing strategies may occur at any time without prior notice to Clients.

Investing in securities involves the risk of loss that clients should be prepared to bear. The specific risks associated with the ETFs comprising the SIP Program portfolios, as well as the risks associated with securities held in those ETFs, are described in detail in the CSIA Schwab Intelligent Portfolios™ Disclosure Brochure.

Selection of ETFs

All ETFs are eligible for consideration, though parameters established by SWIA for the SIP Program place limitations on the universe of ETFs that CSIA may select for SIA accounts.

The parameters require that an ETF be in operation for a certain period of time, have a minimum level of assets, and track its index closely. Also, the difference between the "bid" (the price a buyer is willing to pay for a share of the ETF) and the "ask" (the price a seller wants for

that ETF share) must be small. This difference is called the bid-ask spread, and a narrow bid-ask spread usually means that the ETF has a large trading volume.

ETFs that meet these parameters are then ranked according to their fees and expenses. CSIA seeks to select the ETFs most representative of the asset class with the lowest fees and expenses for inclusion in the portfolios. CSIA will select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. To be eligible for consideration, ETFs designated as the primary ETF in an asset class must have a share price less than a cap that SWIA determines is necessary to enable trading in smaller balance accounts.

Eligible ETFs also include Schwab ETFs™ which are managed by Charles Schwab Investment Management, Inc. ("CSIM"), an affiliate of Schwab, CSIA and SWIA. Schwab ETFs pay fees to CSIM that are described below in "Participation or Interest in Client Transactions."

The percentage of a client account initially invested in Schwab ETFs varies significantly depending on the asset allocation of the investment strategy. Subject to the written parameters described above, CSIA has discretion to allocate any portion, up to 100%, of an investment strategy into Schwab ETFs (excluding the portion in the Cash Allocation), if they meet the selection criteria described above.

Rebalancing

Using portfolio management software, CSIA will rebalance a client's SIA Account periodically by buying and selling ETF shares and depositing or withdrawing funds through the Sweep Program considering the asset allocation for the chosen investment strategy. CSIA will use this software to rebalance accounts if the allocation of the ETFs in a client's account deviates by more than an amount specified in SWIA's parameters from the recommended asset allocation due to changes in the ETFs' values. Monitoring and trading are subject to systems as well as technology constraints and availability, and therefore may not take place daily.

All SIA Accounts will be automatically rebalanced. Accounts below \$5,000 may deviate farther than the amount specified in the rebalancing parameters as well as the target allocation of the selected investment profile. For example, withdrawal requests may require entire asset classes to be liquidated to generate and disburse the requested cash.

Tax-Loss Harvesting

Subject to meeting the minimum Account balance requirement of \$50,000, a client may direct CSIA to employ a tax-loss harvesting strategy in managing their taxable SIA Account. This means that once the tax-loss harvesting threshold is met, CSIA will sell ETFs in the client's account at a loss to offset potential capital gains, although the type and amount of capital gains will not be monitored by CSIA for this purpose. If a client chooses to have tax-loss harvesting for their or their spouse's account, CSIA will use portfolio management software to sell one or more ETFs in the client's Account and replace the ETFs with other ETFs that CSIA reasonably believes are not substantially similar based upon different ETF indexes used by each ETF. The performance of the new ETFs may be better or worse than the performance of the ETFs that are sold for tax-loss harvesting purposes. The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws. Losses harvested through the strategy that are not utilized in the tax period when recognized generally may be carried forward to offset future capital gains, if any.

Clients should consult with their professional tax advisors or check the Internal Revenue Service ("IRS") website at www.irs.gov about the consequences of tax-loss harvesting in light of their particular circumstances and its impact on their tax return. The tax-loss harvesting strategy is not intended as tax advice, and neither Schwab, SWIA nor CSIA represents that any particular tax consequences will be obtained.

CSIA monitors for tax-loss harvesting for SIA Program Accounts, and Clients are responsible for monitoring their and their spouse's other accounts (at Schwab or with another firm) to ensure that transactions in the same ETF or a substantially similar security do not create a "wash sale." A wash sale is the sale at a loss and purchase of the same ETF or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale if replacement shares are bought around the same time.

The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a client's (or client's spouse's) non-SIA Accounts, and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). Except as set forth below, CSIA will monitor only a client's (or a client's spouse's) SIA Accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside SIA Accounts may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner.

If a client chooses to have tax-loss harvesting for the client's taxable SIA Account, CSIA will seek to avoid the wash sale disallowance rule in any other SIA Account or account enrolled in the SIP Program associated with the same primary account holder Social Security Number. A client may also request that CSIA monitor the client's spouse's SIA or SIP Program Accounts to avoid the wash sale disallowance rule. A client may request spousal monitoring online or via a mobile application. If CSIA is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to trade an ETF will block the other account(s) from trading in that same ETF for 30 days.

Schwab Intelligent Portfolios™ Sweep Program

Each SIP investment strategy includes a Cash Allocation to the Sweep Program for asset allocation purposes. The Cash Allocation will generally range from 6% to 30% of an account's value to be held in cash, depending on the investment strategy the client selects based on the client's risk tolerance and time horizon. Higher cash allocations are for the conservative end of the risk spectrum.

The Cash Allocation will be accomplished through enrollment in the Sweep Program, a program sponsored by Schwab. By enrolling accounts in the SIA Program, clients consent to having the free credit balances in their brokerage accounts swept to deposit accounts ("Deposit Accounts") at Schwab Bank, an FDIC-insured depository institution, through the Sweep Program.

The Sweep Program is a required feature of the SIA Program. If the Deposit Account balances exceed the Cash Allocation for the selected investment strategy, the excess over the rebalancing parameter will be used to purchase securities as part of rebalancing. If clients request cash withdrawals from their accounts, this likely will require the sale of ETF positions in their accounts to bring the target allocation back in line for their chosen investment strategy. If those clients have taxable accounts, those sales may generate capital gains (or losses) for tax purposes.

The terms and conditions of the Sweep Program and Schwab's ability to make changes to the Sweep Program or move balances to a new sweep product are set forth in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement that is made available to clients when they open their accounts. Clients should read this document carefully and retain a copy for their records. Clients grant to SWIA the authority to change the cash investment allocation from the Sweep Program to another cash savings or investment product or vehicle offered by a Schwab entity or a third party, while remaining in line with the Client's goals, risk tolerance and time horizon.

In accordance with an agreement with Schwab, Schwab Bank has agreed to pay an interest rate to depositors participating in the Sweep Program that will be determined by reference to a third party index. Currently, that index is the national average of money market deposit account rates at the \$10,000 level as calculated by RateWatch. The current rate and RateWatch's methodology can be found at www.rate-watch.com/national-averages.

Under the agreement between Schwab and Schwab Bank, Schwab Bank may change the method of determining the interest rate upon 30 days' notice to Schwab or upon a regulatory requirement. Schwab will notify clients if it receives such notice from Schwab Bank. This indexed rate may be higher or lower than the interest rates available on other deposit accounts at Schwab Bank or on comparable deposit accounts at other banks. It may also be higher or lower than other cash-equivalent investments, such as money market funds, that are available through Schwab. Schwab does not intend to negotiate for rates that seek to compete with other capital preservation investment options that involve market risk, such as money market funds.

Schwab Bank's revenue from the Cash Allocation in the Deposit Accounts is dependent upon the difference, or "spread," between the interest rate it pays on such deposits and the amount it earns from the investment of such deposits less the FDIC insurance premiums it pays. Therefore, Schwab Bank's ability to earn revenue from the Deposit Accounts is affected by the interest rate negotiated with its affiliated broker-dealer, Schwab. This revenue is a component of the overall revenue to Schwab Bank and its affiliates. Funds in the Deposit Accounts can also benefit Schwab Bank by providing it with increased liquidity, stable funding, and low-cost deposits. Schwab Bank intends to use the assets in the Deposit Accounts to fund current and new lending activities and investments.

A portion of the revenue contributed to the Schwab entities from the Sweep Program is the revenue earned by Schwab Bank in offering the Deposit Accounts. Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts as disclosed in the Schwab Intelligent Portfolios™ Sweep Program Disclosure Statement and below in "Participation or Interest in Client Transactions."

Fees and Compensation

Fees

Clients will be charged an annual fee of 0.28% of total client assets enrolled in the SIA Program, excluding cash ("SIA Program Fee"), with a quarterly cap of \$900 across all SIA Accounts combined together for billing purposes ("SIA Account Group"). The SIA Program Fee includes the following services: (i) planning services delivered by the Planning Consultants; (ii) ongoing access to financial planning tools, (iii) administration services related to the SIA Program. No portion of the SIA Program Fee is attributable to the discretionary management received through the SIP Program.

Schwab will calculate the SIA Program Fee by multiplying the daily value of the assets in a client's SIA Account(s), excluding cash, for each calendar day in the quarter by the applicable daily fee rate (i.e., the annual rate of 0.28% divided by the number of days in that year) and then adding together the fee for each calendar day in the quarter. On the last business day of each quarter, Schwab will estimate the value of the assets (excluding cash) in your SIA account(s) by using the asset values of the SIA account(s) on the next-to-last business day of that quarter.

Trades in SIA Accounts are not subject to Schwab brokerage commissions. When CSIA uses a broker-dealer other than Schwab that is acting as principal (for its own account) to buy or sell ETF shares for clients, that broker-dealer accepts the risk of market price and liquidity fluctuations when executing customer orders. As is industry practice, the broker-dealer adds a fee, called a "spread," to compensate for this risk. The spread is not shown separately on a client's trade confirmation or

account statement. Schwab does not act as principal for ETF trades in SIA Accounts and does not receive any part of the spread.

Due to retirement accounts in the Program, for purposes of IRS rules, Schwab makes a nominal calculation that fully offsets in the amount of 0.30% of the compensation its affiliates receive from ETF transactions in SIA Accounts. This includes advisory fees for managing Schwab ETFs™ and fees earned for providing services to third-party ETFs participating in the Schwab ETF OneSource™ program ("ETF OneSource"), if CSIA selects them to include in SIA Accounts. If this affiliate compensation ever exceeds 0.30% of client assets, Schwab will refund the additional amount to SIA Accounts or use it to pay account administrative expenses. In all cases, the result is that clients pay no fee for the discretionary management of SIA portfolios.

Through the SIP Program, SIA uses a combination of Schwab and third-party ETFs. Each ETF, including a Schwab ETF, pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM will earn fees from SIA Accounts invested in Schwab ETFs.

Clients may incur sales charges, redemption fees and other costs, as well as tax consequences, if they redeem or make other transactions in ETFs, mutual funds or other investments in order to fund SIA Accounts.

To the extent that cash used by clients to fund SIA Accounts comes from redemptions of mutual fund shares, ETFs or other investments outside of the SIA Program, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred.

SWIA has an agreement with Schwab whereby Schwab pays SWIA's expenses in connection with SWIA's administration of the SIP Program.

Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts in an amount up to a \$20 annual flat fee for each brokerage account that sweeps into a Deposit Account. This fee is more fully described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement.

The fees that clients pay directly and indirectly in the SIA Program may be more or less than they would pay if they purchased separately the types of services in each. Clients may be able to obtain some or all of the types of services available through the SIA Program on a stand-alone basis from other firms. Factors that bear upon the cost of the SIA Program in relation to the cost of the same services purchased separately include, among other things, the type and size of the account (and other accounts that clients may be able to combine to determine fee break points), the historical and expected size or number of trades for an account, and the number and range of supplementary advisory and other services provided to an account.

Compensation

Planning Consultant Compensation

Planning Consultants receive compensation in the form of a salary and a bonus based on factors such as corporate and individual performance. Planning Consultants' compensation does not vary depending on the specific investment recommendations made to SIA Clients.

FC Compensation

Financial Consultants are representatives who are compensated for successful referrals to the SIA Program. Please note that Financial Consultants may be Schwab employees ("FCs") or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. Financial Consultants who work out of Schwab Independent Branches are known as Independent Branch Leaders ("IBLs") or, if employed by such independent contractors, Independent Branch ("IB") Representatives.

FCs have two primary sources of compensation: Solutions Pay and Service Pay.

Solutions Pay

Solutions Pay compensates an FC for helping deepen relationships with our clients and for matching client needs with appropriate products and services. FCs receive a one-time payment each time clients with whom they work—both in and outside of their practice—bring Net New Assets to Schwab and enroll in certain products and services. Solutions Pay for in-practice clients applies whether an FC recommends or sells the service or product to the client or the client makes the purchase or enrollment decision on his or her own. The sole exception is for the Program, which the FC must successfully recommend in order to receive Solutions Pay.

FCs only earn Solutions Pay on Net New Assets for practice and non-practice clients and for certain categories of services and products. For example, Solutions Pay applies to enrollment in one of Schwab's proprietary Portfolio Management Services, but does not apply to mutual fund purchases. Generally, if assets leave an FC's practice, that loss is netted against asset gains to an FC's practice for purposes of calculating Solutions Pay. Solutions Pay is paid to the FC monthly.

Asset Consolidation	Financial Consultant's Compensation ¹	One-Time Solutions Payment per \$100,000
Net Asset Flows (total inflow of client assets minus the total outflow of client assets)	$0.0008 \times \text{Net Asset Flows}$	\$80

¹Schwab may cap the amount of incentive compensation that an FC can earn from any one client under the Solutions Pay Component.

Client Solutions	Financial Consultant's Compensation ¹	One-Time Solutions Payment per \$100,000
Portfolio Management Services: <ul style="list-style-type: none"> • SIP Program • SIA Program • Schwab Private Client™ • Schwab Managed Portfolios™ • Schwab Managed Account Services™ • Schwab Advisor Network® 	$0.002 \times \text{Amount Enrolled}$	\$200

¹Schwab may cap the amount of incentive compensation that an FC can earn from any one client under the Solutions Pay Component.

Service Pay

Service Pay compensates an FC for building and maintaining relationships with clients in their Practice—i.e., clients for whom the FC is the primary point of contact with Schwab. Each month, an FC is paid a percentage of the approximate annual revenue attributed to clients in their Practice, as determined by attributing average revenue rates to certain categories of assets or products and by measuring the actual revenue generated by certain eligible transactions.

Average Revenue Rates. The majority of a Financial Consultant's Service Pay is calculated using Average Revenue Rates. Average Revenue Rates are calculated by blending the revenue for all of the services or products in each category into one rate. The primary function of an Average Revenue Rate is to pay FCs the same rate for similar offers or products. For example, an FC's pay is calculated using the same rate for referring a client to most of our Portfolio Management Services, even though Schwab may make more money on one over another. Because Average Revenue Rates differ for each product or service

category, an FC can receive more compensation if clients are invested in one category versus another, as table below demonstrates.

An FC receives more compensation depending on whether a client accepts certain recommendations made by the FC, including the referral to SWIA, as opposed to maintaining a purely commission-based brokerage relationship. The chart below illustrates the Service Pay that FCs receive for (i) assets successfully referred to SWIA or Schwab Advisor Network® and (ii) assets enrolled in other Portfolio Management Services. FCs are eligible to receive 6%, 7%, 8%, or 9% of the firm's Average Revenue Rate for the asset categories listed in the table below, depending on the Financial Consultant's experience and past performance.

Asset Category	Service Pay per \$100,000 of Practice assets (depending on the FC's payout percentage rate)
Assets in accounts referred to the SIP Program, SIA Program or Schwab Advisor Network	\$17–\$26
Assets enrolled in other Portfolio Management Services: <ul style="list-style-type: none"> • Schwab Private Client™ • Schwab Managed Portfolios™ • Schwab Managed Account Services™ • Variable Annuities 	\$43–\$64

As a result of the service component described above, FCs may have a financial incentive to recommend those asset categories reflected in the above table for which they receive higher Service Pay over other products and services, including Schwab Advisor Network, the SIP Program or SIA Program.

Compensation to Other Schwab Employee Investment Professionals

Other Schwab employee investment professionals, such as Investment Consultants, Investor Development Specialists, and Participant Investor Concierge Financial Consultants, can also earn additional incentive compensation for educating clients in advisory services, including the Program.

IBL Compensation

The assets in accounts assigned to IBLs are divided into two categories: (1) "Advised Assets," meaning assets in accounts enrolled in an investment advisory program like the SIP Program, the SIA Program, Schwab Private Client, Schwab Managed Portfolios, or Schwab Managed Account Services; and (2) "Non-Advised Assets," consisting of assets not in the Advised Asset category, which include stocks, bonds, mutual funds, and ETFs as well as payment for providing cash management services.

Each month Schwab calculates and applies an Advised Asset revenue rate and a Non-Advised Asset revenue rate to the assets in accounts assigned to all Schwab Independent Branches. The two revenue rates are calculated by looking at 12-month trailing assets and revenue from all Schwab Independent Branch accounts. This is done by dividing the adjusted revenue amount for each asset category by the associated assets, subtracting certain product-level expenses and excluding certain revenues not earned at the individual account level. Schwab then applies these revenue rates to the daily average assets in each category in accounts assigned to individual Schwab Independent Branches, yielding an adjusted revenue figure for each asset category. The revenue rates change monthly, but the Advised Asset revenue rate is higher because Schwab generally generates more revenue on Advised Assets. This is due to the asset-based fees paid for advisory services and other revenue generated by the underlying assets in the enrolled accounts such as shareholder servicing fees paid to Schwab by certain mutual funds. An IBL, therefore, generally earns more money by successfully making a referral to the SIA Program or successfully recommending that a client enroll in another product in the Advised Asset category.

After adding together the adjusted revenue figures for Advised and Non-Advised Assets, Schwab then applies a multiplier based on the tenure of the IBL. In years one through five, the IBL's revenue share is

adjusted using a multiplier ranging from 200% to 55%, and then, in years six and beyond, the revenue is adjusted using a 50% multiplier. (Note: For assets of clients who transition to Schwab from an IBL's prior firm, the IBL may elect a constant multiplier of 50% in exchange for an increased ability to ask such clients to transition away from Schwab if the franchise agreement ends.) Finally, Schwab deducts certain monthly fees and expenses from the total adjusted revenue amount that the IBL owes to Schwab under the franchise agreement. This results in a net payout for the month.

IB Representatives receive a salary paid by the IBL and, as determined by the IBL as their employer, may be eligible for a bonus.

The criteria used to determine the amount of the bonus may include such factors as Net New Assets brought to Schwab, net new clients acquired through the efforts of an IB Representative, or the portion of the net payout attributable to clients serviced by an IB Representative.

Performance-Based Fees

Schwab does not receive performance-based fees in connection with the SIA Program.

Side-by-Side Management

Not applicable. Schwab does not manage or recommend strategies in the SIA Program.

Benefits to Schwab Affiliates

Schwab affiliates earn revenue from the assets in SIA Accounts. This revenue comes from: (i) revenue earned by Schwab Bank on the Cash Allocation in the investment strategies; (ii) advisory fees received by CSIM from Schwab ETFs that CSIA selects to buy and hold in client accounts; (iii) fees received by Schwab from third-party ETFs in client accounts for services Schwab provides to them as participants in ETF OneSource; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution. More information about these revenues and their benefits to Schwab affiliates is set forth under "Schwab Intelligent Portfolios™ Sweep Program" and "Fees" above and under "Participation or Interest in Client Transactions" below.

Potential Conflicts of Interest and How They Are Addressed

SWIA, not Schwab, CSIA or Schwab Bank, sets the parameters for the Cash Allocation in each investment strategy. The parameters are set based on a disciplined portfolio construction methodology designed to balance performance with risk management appropriate for a client's goal, investing time frame, and personal risk tolerance, just as with other Schwab managed products. Schwab Bank earns income on the Cash Allocation for each investment strategy. The higher the Cash Allocation and the lower the interest rate paid, the more Schwab Bank earns, thereby creating a potential conflict of interest. The Cash Allocation can affect both the risk profile and performance of a portfolio. To mitigate any potential conflict, SWIA instructs CSIA to construct the SIP Program strategies primarily pursuant to modern portfolio theory, which seeks to construct an optimal return goal for a portfolio based on the level of risk an investor is willing to take.

The interest rate paid to depositors participating in the Sweep Program is determined by agreement between Schwab and Schwab Bank. Since they are affiliates, any potential conflict in determining the interest rate has been mitigated by having the rate determined by reference to an index. For more information about the Cash Allocation in the investment strategies and the revenue earned by Schwab Bank, see "Schwab Intelligent Portfolios Sweep Program" above.

All ETFs, including Schwab ETFs, are eligible for consideration in the SIA Program. SWIA establishes written objective criteria that do not allow CSIA to consider compensation to Schwab or other affiliates in connection with selecting ETFs or managing SIP Program portfolios. CSIA must also follow these written criteria in selecting securities for, and remov-

ing securities from, SIA Accounts. Schwab reviews SWIA's and CSIA's performance in providing portfolio management services to SIA Accounts. For more information regarding how ETFs are selected for inclusion in portfolios and on the fees earned by Schwab affiliates on ETFs in client accounts, see "Selection of ETFs" and "Fees" above. Because they are affiliated companies, SWIA has a potential incentive to select and keep CSIA to provide portfolio management services for the SIP Program. CSIA has a potential conflict of interest in selecting Schwab ETFs™ which pay compensation to CSIM, and ETFs in ETF OneSource, which pay compensation to Schwab. Schwab also has a potential conflict in selecting the SIP Program as the discretionary management vehicle for SIA Accounts.

In addition, asset classes in SIA Accounts include both market-cap and fundamentally weighted ETFs. Market-cap weighted ETFs track indices based on the market capitalization of the index's underlying holdings. Fundamental ETFs weight holdings based on fundamental factors like sales, cash flow, dividend distribution, and buybacks. SIA Accounts are invested in both market-cap based and fundamentally weighted ETFs with the goal of helping to increase diversification, reduce volatility, and provide better risk-adjusted results over time. Typically, fundamental ETFs have a higher expense ratio than market-cap ETFs. The current method CSIA uses to select fundamentally weighted ETFs is based on asset classification by a third-party provider and, in combination with the selection criteria described above, results in Schwab ETFs being the primary ETF selection for fundamental asset classes in portfolios.

Account Requirements and Types of Clients

The SIA Program is designed for investors who are comfortable with online and mobile access and who are conscious of fees and costs, but also want to be able to receive periodic guidance. It is generally not for clients with highly complex needs or a preference for frequent in-person interactions.

Clients may include individuals, IRAs and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), are not eligible for the SIA Program.

Clients must agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials.

Clients must open their SIA Accounts with a combined minimum of \$25,000 in the SIA Account Group and a per-Account minimum of \$5,000. Not all clients or prospects will be appropriate for the SIA Program. There is also a minimum balance requirement to request CSIA employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy.

If you terminate your enrollment in the SIA Program, you must also close your SIA Accounts and instruct Schwab to either (i) liquidate the Account assets and send the proceeds to you or to an account specified by you, or (ii) transfer the assets to another account (at Schwab or another custodian). If you transfer your assets to another account at Schwab, the Sweep Program will not apply to that account. That account will have its own sweep feature which may have terms that are more favorable or less favorable than the Sweep Program.

Schwab may terminate a client from the SIA Program for failing to fund or maintain their SIA Accounts for failure to maintain a valid email address or for any other reason, at Schwab's sole discretion. Schwab may terminate a client from the SIA Program if the Client's requested investment restrictions are deemed to be unreasonable. Schwab will provide at least 30 days' notice before terminating a client from the SIA Program. Depending on the reason for the termination, you may have the opportunity to resolve the reason for the termination. If you are unable to do so and do not make arrangements to transfer the assets

in your SIA Account to another brokerage account at Schwab or another custodian, then the following will occur: (i) the ETFs in your account will be sold; (ii) your enrollment in the Sweep Program will terminate; (iii) funds will be disbursed to you; and (iv) your SIA Account will be closed. Upon termination by either the client or Schwab, the SIA Account will no longer be managed.

Retirement Accounts

Schwab does not and will not render advice on a regular basis pursuant to an arrangement or understanding that such advice shall serve as a primary basis for investment decisions with respect to any retirement account. Schwab, SWIA and its employees and agents (i) are not fiduciaries as defined under the Internal Revenue Code; (ii) have no investment or other discretion with respect to assets covered by either the SIP Program or the SIA Program; (iii) will perform no discretionary acts with respect to such assets; (iv) will effect only such transactions as instructed by clients; and (v) will exercise no discretion and provide no advice as to the voting of proxies.

SIP Program Selection and Evaluation

Schwab has selected the SIP Program as the vehicle for discretionary management within the SIA Program, which includes SWIA-established parameters and SWIA's selection of CSIA to provide portfolio management in SIP Program accounts and SIA Accounts. Schwab reviews the performance of SWIA and CSIA, and the performance of its own Planning Consultants, on a periodic basis.

Client Information Provided to Portfolio Manager

At the time of SWIA enrollment, Schwab provides CSIA, through SWIA, with information about that client's chosen investment strategy and any reasonable restrictions applicable to the client's SIA Account. Schwab provides updated information as necessary thereafter in order for CSIA to provide portfolio management services to SIA Accounts.

Client Contact With Portfolio Manager

Clients who wish to contact CSIA regarding their SIA Accounts can do so by making a request to their Planning Consultant.

Additional Information

Disciplinary Information

The SEC and other regulatory agencies and organizations have taken certain disciplinary actions against us for violations of investment-related statutes, regulations, and rules. The matters have been settled, and Schwab has paid fines with respect to certain violations.

1. A disciplinary action initiated by the Financial Industry Regulatory Authority ("FINRA") asserted that, in violation of FINRA Rules 2010 and 3310(a), Schwab failed to implement policies and procedures that were reasonably designed to detect, and cause the reporting of, suspicious incoming wire transactions occurring in August 2011. Without admitting or denying the findings, Schwab consented to the described sanctions and to the entry of findings. Therefore, in December 2013, Schwab was censured, fined \$175,000, and required to conduct a comprehensive review of the adequacy of its anti-money laundering policies, systems, procedures (written or otherwise), and training with respect to detecting and reporting suspicious incoming wire transfers.

2. A disciplinary action initiated by FINRA asserted that Schwab failed on 44 occasions during the second quarter of 2011 and on 245 occasions during the first half of the 2012 review period to provide written notification disclosing to its customers a call date that was consistent with the disclosed yield to call, in violation of SEC Rule 10b-10. Without admitting or denying the allegations, Schwab consented on August 23, 2013, to a censure and a monetary fine of \$12,500.

3. A disciplinary action initiated by the Chicago Board Options Exchange ("CBOE") alleged that Schwab: (1) violated CBOE Rule 9.21 by disseminating sales literature and failed to withhold the sales literature from circulation prior to incorporating the required changes specified by the CBOE; and (2) violated CBOE Rule 4.2 by failing to adequately supervise

its associated persons to assure compliance with Rule 9.21. Without admitting or denying these allegations, Schwab consented to a censure and a monetary fine of \$10,000 on May 29, 2013.

4. In May 2013, the CBOE alleged that from approximately November 8, 2011, through approximately December 7, 2011, Schwab failed to have adequate supervisory procedures to assure compliance with SEC Rule 14E-4 relating to partial short tender activity. The CBOE accepted Schwab's offer of settlement consisting of a \$10,000 fine and a censure. Schwab neither admitted nor denied the allegations.

5. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board ("MSRB") Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the Real-Time Transaction Reporting System ("RTRS") within 15 minutes of trade time in the first and fourth quarters of 2010; and (2) failing to report the correct yield to RTRS for certain municipal securities transactions in the second quarter of 2010. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$35,000 on July 26, 2012.

6. Schwab entered into a stipulation and consent agreement with the state of Florida on March 26, 2012, in which Schwab was fined \$1,100,000 and ordered to offer restitution to certain clients for distributing trade confirmations to Florida clients between 2008 and 2011 containing inaccurate information with respect to certain municipal bond, corporate bond and preferred equity security trades, and for failing to have adequate written supervisory procedures with respect to the review of such trade confirmations, in violation of the Florida Administrative Code.

7. Schwab entered into a consent order with the state of Nevada on November 2, 2011, in which Schwab was fined \$10,000 for failing to detect the lack of Nevada state registration of a non-employee investment advisor. Schwab was found to have violated its own procedures and Nevada Administrative Code Section 90.321 for failing to determine that the non-employee was acting as a professional investment advisor at the time the accounts were set up or during the course of his management of the accounts at issue.

8. A disciplinary action initiated by FINRA asserted that Schwab violated MSRB Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the RTRS within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.

9. In January 2011, Schwab and its affiliate Charles Schwab Investment Management, Inc. (together, for purposes of this disclosure, "Schwab") reached agreements with the SEC, FINRA, the Illinois Secretary of State, the Illinois Securities Department ("Illinois") and the Connecticut Department of Banking's Securities and Business Investments Division ("Connecticut") to settle matters related to the Schwab YieldPlus Fund® (the "Fund").

As part of the SEC settlement, the SEC found that Schwab violated certain investment-related laws and regulations related to the offer, sale and management of the Fund from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Fund's concentration policy with respect to investments in non-agency mortgage-backed securities, without shareholder approval; (2) made materially misleading statements and omissions about the Fund and its associated risks before and during the decline of its net asset value ("NAV"); (3) materially understated the Fund weighted average maturity ("WAM"); (4) willfully aided and abetted misstatements and omissions appearing in Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees and penalties. As part of the

settlement with the SEC, Schwab will also take a number of actions to improve procedures and reinforce Schwab's commitment to its clients. These actions include retaining an independent consultant to conduct a comprehensive review of Schwab's policies, practices and procedures designed to prevent the misuse of material nonpublic information by or related to Schwab's mutual funds. The SEC settlement was approved by the United States District Court for the Northern District of California on February 16, 2011. Additionally, the SEC has brought related complaints against two former employees of Schwab.

The amount to be paid by Schwab pursuant to the SEC settlement includes approximately \$18,000,000 to be paid by Schwab in settlement of the FINRA matter in which FINRA made related factual allegations against Schwab and found that Schwab's conduct violated FINRA's just and equitable principles of trade and its rules pertaining to communications with the public and supervision.

Schwab has also agreed to pay approximately \$8,567,364 in settlement of the Illinois matter in which Illinois made related factual allegations against Schwab and found that Schwab's conduct violated Illinois Securities Law provisions relating to supervision of securities and advisory activity by employees and to maintenance of written procedures reasonably designed to comply with securities laws and regulations.

Schwab has also agreed to pay an amount not to exceed approximately \$2,800,000 in settlement of the Connecticut matter in which Connecticut made related factual allegations against Schwab and found that Schwab violated applicable Connecticut laws and regulations by failing to reasonably supervise its employees.

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those described above. On March 30, 2010, the court granted plaintiffs' motion for summary judgment holding defendants liable for plaintiffs' state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. Although the judgment was subject to a potential appeal and further proceedings on damages, the Schwab Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$202,700,000 and the plaintiffs' California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs' and defendants' motions for final approval of the settlement agreements.

Other Financial Industry Activities and Affiliations

Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA. We provide brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to our broker-dealer business, we offer our clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures and other publications about securities and investment techniques. We also provide certain online data and financial reporting services.

Schwab is also registered as an investment advisor under the Investment Advisers Act of 1940. In addition to the SIA Program, Schwab provides other investment advisory services. The Schwab Private Client™ service is a non-discretionary wrap fee program in which clients receive periodic, ongoing advice from a team of Schwab representatives. Other programs in which Schwab acts as a registered investment advisor include Schwab Managed Portfolios™ ("SMP"), Managed Account Select® and Managed Account Connection® wrap fee programs sponsored by Schwab and the financial planning services provided through the Schwab Personal Financial Plan™ and Schwab Equity Compensation Consultation.

Schwab does not trade futures and is not a futures commission merchant ("FCM"). However, for our customers who have a desire to trade futures, we have a referral relationship with optionsXpress, Inc., an FCM that is an affiliate of Schwab. Per the terms of the referral relationship, Schwab receives a one-time referral fee for Schwab clients who open a futures account at optionsXpress and place a trade.

Schwab acts as the qualified custodian for SIA Accounts and provides execution and related services for SIA Accounts.

Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

Code of Ethics

Schwab has a code of ethics adopted pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the "Code"). The Code reflects the fiduciary principles that govern the conduct of Schwab, its employees, independent contractors, and such independent contractors' employees when we are acting as an investment advisor, such as when we refer you to, or provide financial planning within, the SIA Program. The Code requires that Schwab's covered representatives comply with applicable federal securities laws, report violations of the Code, and for those deemed "access persons" by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically and get clearance before buying certain securities, including initial public offerings or private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other nonpublic information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures.

A copy of the Code is available upon request.

Participation or Interest in Client Transactions

ETF Trade Execution

Schwab, as broker for SIA Accounts, routes ETF orders for execution to third-party broker-dealers, who may act as market maker or manage execution of the orders in other market venues. Schwab also routes orders directly to all major exchanges and alternative trading systems, including ECNs (electronic trading networks). Schwab may receive remuneration such as liquidity or order flow rebates from a market or firm to which orders are routed, but at all times is committed to best execution.

Schwab considers a number of factors in evaluating execution quality among markets and firms, including execution price and opportunities for price improvement, market depth and order size, the trading characteristics of the security, speed and accuracy of executions, the availability of efficient and reliable order handling systems, liquidity and automatic execution guarantees, and service levels and the cost of executing orders at a particular market or firm. Price improvement occurs when an order is executed at a price more favorable than the displayed national best bid or offer. Schwab regularly monitors the execution quality provided by the various markets and firms to ensure orders are routed to market venues that have provided high-quality executions over time.

ETFs

Through the SIP Program, SIA uses a combination of Schwab and third-party ETFs. The ETFs that are eligible for inclusion in the SIP Program are described above under "Selection of ETFs."

Eligible ETFs include Schwab ETFs™ which are managed by CSIM. Each ETF, including a Schwab ETF, pays investment advisory, administrative,

distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a Schwab affiliate) will earn fees from clients who invest in Schwab ETFs.

ETFs in the ETF OneSource program are also eligible to be selected for inclusion in the SIP Program. Schwab has established the ETF OneSource program under which ETFs can be traded without a commission on buy and sell transactions. Schwab receives payments from the third-party ETF sponsors or their affiliates participating in ETF OneSource for record-keeping, shareholder services and other administrative services that Schwab provides to participating ETFs. In addition, Schwab promotes the ETF OneSource program to its customers, and a portion of the fees paid to Schwab offsets some or all of Schwab's costs of promoting and administering ETF OneSource. Schwab does not receive payment to promote any particular ETF to its customers.

ETF sponsors or their affiliates pay a fixed ETF OneSource program fee to Schwab each year for each ETF participating in ETF OneSource. The program fees vary, but can range up to \$250,000 per year for each participating ETF. ETF sponsors or their affiliates also pay Schwab an asset-based fee based on a percentage of total ETF assets purchased by Schwab customers after the ETF was added to ETF OneSource.

The amount of the asset-based fee can range up to 0.20% annually. Schwab ETFs do not pay any program or asset-based fees to participate in ETF OneSource.

Assets in SIA Accounts are included in the calculation of the asset-based ETF OneSource fee to be paid to Schwab by an ETF sponsor or its affiliates. Schwab may exclude other assets or other types of transactions from the asset-based ETF OneSource fee paid by an ETF sponsor or its affiliates.

Each SIA Account contains a Cash Allocation which is accomplished through the Sweep Program. By enrolling in the SIA Program, you consent to having the free credit balances in your brokerage account included in the Sweep Program. A portion of the revenue contributed to the Schwab entities from the Sweep Program is the revenue earned by Schwab Bank in offering the Deposit Accounts. Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts in an amount up to a \$20 annual flat fee for each brokerage account that sweeps into a Deposit Account.

Personal Trading

Although Schwab does not recommend buying or selling particular securities as part of the SIA Program, Schwab nevertheless monitors the personal securities holdings and trading of its representatives. Schwab reviews such accounts custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code, Schwab's Compliance Manual, and other applicable policies. Additionally, Schwab representatives must disclose all securities accounts they own or control after their hire date and review and confirm the accuracy of those accounts on an annual basis during their employment.

Brokerage Practices

Schwab does not select or recommend broker-dealers as part of the SIA Program. Clients will agree with Schwab that all brokerage transactions will be routed to Schwab for execution. For additional details regarding brokerage practices for the SIA Program, please refer to the CSIA Schwab Intelligent Portfolios™ Disclosure Brochure.

Review of Accounts

If you enroll in the SIA Program, you will open a Schwab brokerage account, and we will furnish you with account statements and confirmations of all transactions initiated and effected for your account. You will also receive account statements at least quarterly for each SIA Account which will indicate security purchases and sales; interest, dividends and other earnings; additions to and withdrawals from the account; fees and other charges; and account value. It is your responsibility to review all confirmations and account statements promptly and to communicate directly with us if you have any concerns about the management of your account.

After the initial planning meeting, Planning Consultants will conduct periodic client consultations, which generally occur on an annual basis, but which may occur with varying frequency, depending on the client's needs. On a typically annual basis, Planning Consultants will review the client's situation, validate the client's financial planning needs, and review the strategy chosen for the SIA Accounts.

Clients may update their financial plans online at any time. A consultation with a Planning Consultant is required before any investment strategy changes can be implemented for any enrolled Account. SIA Clients receive electronically a separate confirmation of each transaction and an account statement (at least quarterly) detailing positions and activity in their accounts. The statement includes a summary of all transactions made on the client's behalf, all contributions and withdrawals made to or from the account, all fees and expenses charged to the account, and the account value at the beginning and end of the period. The statement may be based upon information obtained from third parties.

Client Referrals and Other Compensation

Schwab FCs and other employees, as well as IBLs and IB Representatives, receive compensation from Schwab as explained in the "Compensation" section above. The SIA Program does not rely upon client referrals from any non-Schwab entity or person.

Custody

Schwab has custody of assets in the SIA Accounts and will provide an account statement, at least quarterly, for each SIA Account. The account statements detail account positions and activities during the preceding period. Clients should review their account statements carefully.

Investment Discretion

As detailed in the "Advisory Business" section above, the SIA Program includes discretionary portfolio management through SIP, and Clients receive a diversified portfolio of ETFs and a Cash Allocation.

Voting Client Securities

Schwab does not have or accept authority to vote Clients' securities (i.e., proxy voting) in the SIA Program.

Financial Information

Schwab does not require or solicit prepayment of the SIA Fee and is therefore not required to include a balance sheet for its most recent fiscal year. Schwab does not have any financial condition that is reasonably likely to impair its ability to meet its contractual obligations to its Clients. Schwab is not and has not been the subject of any bankruptcy petition during the past 10 years.

